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# ***PRELICENSING EDUCATION***

## ***Educational Objectives***

### **California Life-Only Agent Examination**

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## **OVERVIEW**

For purposes of the prelicensing curriculum and examination, the successful applicant is defined as an individual of an agency or an insurer. Twenty hours of life-only agent prelicensing education must at a minimum include the material in these objectives.

Section 1677 of the California Insurance Code (CIC) requires that the Life-Only agent examination be of sufficient scope to satisfy the Insurance Commissioner that an applicant has sufficient knowledge of insurance and insurance laws.

Effective January 1, 2008, California Insurance Code Sections regarding the Life-Only agent license were amended to include provisions for a "Life-Only" agent license. Specifically, Section 1626 (a) (1) defines a Life-Only Agent licensee as authorized to transact insurance coverage on human lives, including benefits of endowment and annuities, and may include benefits in the event of death or dismemberment by accident and benefits for disability income.

The new Life-Only agent will be introduced and trained to sell and service the less complex types of business first and the other lines later. Sufficient knowledge is what this new life-only agent needs to know at the start of one's career.

- (1) Basic knowledge including:
  - \* basic life-only insurance concepts and principles
  - \* responsibilities and authority of a life-only insurance agent
  - \* commonly written life-only insurance products
  - \* senior insurance products
  - \* ethics and insurance code
  - \* insurance coverage on human lives
  - \* benefits of endowment and annuities
  - \* benefits in the event of death or dismemberment by accident
  - \* benefits for disability income insurance
- (2) With a general understanding of:
  - \* commonly used non-insurance disability systems
  - \* social life and disability insurance programs
  - \* what is happening in today's marketplace
- (3) In addition, this license authorizes the transaction of insurance coverage on:
  - \* Credit Life - A policy can pay off or reduce the balance of a loan or accumulated debt in the event of the insured's death.

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- \* Fixed Annuities – Contracts offering a guaranteed rate of interest and a guaranteed return of principal for the term of the contract.
  - \* Funeral And Burial - Specific life insurance policies or annuities having an initial face amount of fifteen thousand dollars (\$15,000) or less that are designated by the purchaser for the payment of funeral and burial expenses.
  - \* Group Life - Life Insurance provided for members of a group. It is most often issued to a group of employees but may be issued to any group provided it is not formed for the purpose of buying insurance. The cost is lower than for individual policies because administrative expenses per life are decreased, there are certain tax advantages, and measures taken against adverse selection are effective.
  - \* Insurable Interest - A life insurance policy on someone else's life.
  - \* Permanent Life - A type of life insurance that includes both a death benefit and a cash value component.
  - \* Temporary Life – This product provides death protection for a stated time period or term.
  - \* Universal Life – This product is a flexible-premium, adjustable benefit life insurance policy that accumulates account value. The flexibility of this policy allows the insured to change the amount of insurance as the needs for insurance change.
  - \* Variable Annuities - Issued by insurance companies, they give the investor the flexibility to select from a variety of investment fund options. Earnings are tax deferred. The Life Agent must have registration with the Financial Industry Regulatory Authority to transact in California.
  - \* Variable Life - A form of whole life insurance providing death benefits and/or cash values based on a tax-deferred investment portfolio.
- (4) No prelicensing or continuing education course shall include sales training, motivational training, self-improvement training, or training offered by insurers or agents regarding new products or programs (Section 1749.1(b) of the CIC).

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#### EDUCATIONAL OBJECTIVES

The educational objectives are derived from the following pages. They are derived from the curriculum outline contained in Title 10, Chapter 5, Subchapter 1, Article 6.5, Section 2187.1 of the California Code of Regulations (CCR).

#### ETHICS AND CALIFORNIA INSURANCE CODE

The educational objectives for Ethics and California Insurance Code are incorporated in the following pages. The individual objectives may be identified by “(CIC XXXX)” or “(Ethics)” or “(Code).” References to “Code” or “CIC” in the educational objectives mean the California Insurance Code. The “General” Ethics and California Insurance Code educational objectives that apply to all lines of authority appear in Appendix A at the end of this document. The 12 hours of required Ethics and California Insurance Code education must at a minimum include the material in Appendix A.

#### THE EXAMINATION

The applicant for a life-only agent license will, without any aids (e.g. reference materials, electronic aids):

*Correctly answer a minimum of 70 percent of the questions. The examination will be one and a half hour (or 90 minutes) and will be a 75-question multiple-choice examination.*

#### [Candidate Information Bulletins](#)

The Candidate Information Bulletins (CIB) provide detailed information on how to prepare for your license examination, prelicensing education requirements, examination site procedures, sample examination questions, test taking strategies, and driving directions to the California Department of Insurance's examination sites that are located throughout California.

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Examinations are administered at the following locations beginning at 8:30 a.m. and 1:00 p.m., Monday through Friday except on state holidays:

**Sacramento:**

California Department of Insurance  
Examination Site  
320 Capitol Mall,  
1st Floor  
Sacramento, California 95814

**Los Angeles:**

California Department of Insurance  
Examination Site  
300 South Spring Street, North Tower,  
Suite 1000  
Los Angeles, California 90013

**San Francisco:**

California Department of Insurance  
Examination Site  
45 Fremont Street  
22nd Floor  
San Francisco, California 94105

**San Diego:**

California Department of Insurance  
Examination Site  
1350 Front Street  
Room 4050  
San Diego, California 92101

Check-in is at 8:10 a.m. for the 8:30 a.m. examination, and check-in is at 12:40 p.m. for the 1:00 p.m. examination.

For additional information on license examinations (i.e. online examination scheduling, fingerprint requirements, examination admittance and forms of identification, check your scheduled examination date, check your examination results), please review the following link:

<http://www.insurance.ca.gov/0200-industry/0010-producer-online-services/0200-exam-info/index.cfm>

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#### **TABLE OF CONTENTS**

- I. GENERAL INSURANCE** (30 percent of exam questions)
  - A. Basic Insurance Concepts and Principles
  - B. Contract Law
  - C. The Insurance Marketplace
    - 1. Distribution Systems
    - 2. Producers
    - 3. Insurers
    - 4. Market Regulation – General
    - 5. Fair Claims Settlement Practices Regulations
  
- II. LIFE INSURANCE** (65 percent of exam questions)
  - A. Life Insurance - Basics
  - B. Types of Life Policies
  - C. Annuities
  - D. Life Insurance and Annuities - Policy Replacement / Cancellation
  - E. The Individual Life Insurance Contract
  - F. Taxation of Life Insurance and Annuity - Premium and Proceeds
  - G. Employee Benefits Plans - Life
  - H. Social Insurance System
  - I. Underwriting / Pricing / Claims
  - J. Financial Structure of Insurers
  
- III. LIFE POLICY RIDERS** (5 percent of exam questions)

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#### **I. GENERAL INSURANCE** (30 percent of exam questions)

##### **I. A. Basic Insurance Concepts and Principles**

1. Be able to identify examples of insurance (as defined [CIC 22]).
2. Be able to recognize the definition of risk.
3. Be able to differentiate between a pure risk and a speculative risk.
4. Be able to identify a definition of peril.
5. Be able to identify a definition of hazard.
6. Be able to differentiate between moral, morale, and physical hazards.
7. Be able to identify the definition of the law of large numbers.
8. Be able to identify a definition or the correct usage of the term loss exposure.
9. Be able to identify risk situations that present the possibility of a loss.
10. Be able to recognize the requisites of an ideally insurable risk.
11. Be able to identify the definition of insurable events (CIC 250).
12. Be able to identify and apply the definition of insurable interest, and indemnity, and be able to recognize the applicability of these terms to a given situation.
13. Be able to identify why private insurers underwrite the insurance applications they receive.
14. Be able to identify the meaning of adverse selection and profitable distribution of exposures.

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#### **I. GENERAL INSURANCE**

##### **I. B. Contract Law**

1. Be able to identify and compare contract law and tort law.
2. Be able to identify the four major elements of a contract
  - a. agreement, offer and acceptance;
  - b. competent parties;
  - c. legal purpose; and
  - d. consideration.
3. Be able to identify the meaning and effect of the following special characteristics of an insurance contract:
  - a. contract of adhesion;
  - b. conditional contract;
  - c. aleatory;
  - d. unilateral;
  - e. personal;
  - f. utmost good faith;
  - g. indemnity.
4. Be able to identify the term "insurance policy" (CIC 380).
5. Be able to identify the meaning and effect of each of the following on a contract:
  - a. fraud (CIC 338, 1871.1 - 1871.4);
  - b. concealment (CIC 330-339);
    - i. Be able to identify information that does not need to be communicated in a contract: (CIC 333)
      - (1) known information
      - (2) information that should be known
      - (3) information which the other party waives
      - (4) information that is not material to the risk
  - c. warranty (CIC 440-445, 447);
    - i. know that a representation in an insurance contract qualifies as an implied warranty.
  - d. materiality (CIC 334);
    - i. know that the materiality of concealment is the rule used to determine the importance of a misrepresentation.
  - e. representations (CIC 350-361);
    - i. know when a representation can be altered or withdrawn (CIC 355)

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- ii. know that a representation is false when the facts fail to correspond with its assertions or stipulations (CIC 358).
- f. misrepresentation (CIC 780-784).
- 6. Be able to identify six required specifications for all insurance policies (CIC 381).
  - a. know that the financial rating of the insurer is not required to be specified in the insurance policy (CIC 381).
- 7. Be able to identify:
  - a. the meaning of the term rescission;
  - b. when an insurer has the right of rescission (CIC 331, 338, 359, 447).
    - i. know that either intentional or unintentional concealment entitles an injured party to rescission of a contract. (CIC 331)
- 8. Given an insurance situation, be able to identify the following terms correctly:
  - a. application, policy, rider;
  - b. cancellation, lapse, renewal and non-renewal, grace period;
  - c. rate/premium, earned and unearned premium;
  - d. preferred, standard, and substandard risk.
- 9. Be able to identify the requirements of:
  - a. the Fair Credit Reporting Act;
  - b. Medical Information Bureau.

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

##### **I. C1. Distribution Systems**

- 1. Be able to identify a definition of the following marketing systems:
  - a. agency;
  - b. direct response;
  - c. home service.

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

##### **I. C2. Producers**

- 1. Given a situation involving the legal relationship of a life-only agent and either a principal (an insurer or agency principal) or an insured/applicant, be able to assess:
  - a. the legal relationship;



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- b. the responsibilities and duties of each;
  - c. the effect of the types of authority an agent may have (express, implied, or apparent).
- 2. With regard to the underwriting of applicants and/or insureds, be able to:
  - a. identify a producer's responsibilities;
  - b. differentiate between the limitations placed on insurer pre-selection and post-selection activities.
- 3. Be able to identify a definition of the following:
  - a. life-only agent (CIC 1622);
  - b. life and disability analyst (CIC 32.5).
- 4. Be able to differentiate between a life agent and a life analyst (CIC 32, 32.5, 1831-1849).
- 5. Be able to identify the Code definition of transact and why the definition is important (CIC 35, 1621-1624, 1631, 1633).
- 6. Be able to identify:
  - a. that the Code prohibits certain actions by unlicensed persons (CIC 1631);
  - b. the penalty for such ("a") above) prohibited actions (CIC 1633).
- 7. Written Consent in Regards to Interstate Commerce (Prohibited Persons in Insurance):
  - a. Be able to identify what conduct is prohibited by Title 18 United States Code Section 1033.
  - b. Be able to identify what civil and criminal penalties apply, Title 18 United States Code Sections 1033 and 1034.
- 8. Be able to identify the differences between the terms "agent" and "broker" with respect to their relationship with insurers and with their insureds.
  - a. insurance agent means a person authorized, by and on behalf of an insurer, to transact all classes of insurance other **that than** life insurance (CIC 31).
  - b. insurance broker means a person who, for compensation and on behalf of another person, transacts insurance other than life with, but not on behalf of, an insurer (CIC 33).
  - c. **know that there is no life broker or health broker. life settlement broker means a person who, on behalf of an owner, and for a fee, commission, or other valuable consideration, offers or attempts to**

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negotiate life settlement contracts between an owner and providers. A life settlement broker represents only the owner and owes a fiduciary duty to the owner to act according to the owner's instructions, and in the best interest of the owner, notwithstanding the manner in which the broker is compensated. (CIC 10113.1(b))

- i. A life insurance producer who has been licensed as a life agent (or a licensed nonresident producer) in this state for one year or longer may act as a life settlement broker by notifying the Commissioner and paying the life settlement broker license fee.
- ii. An life insurance producer who has not held life agent license for one year must first complete at least 15 hours of education on life settlement transactions and must complete an application and pay the life settlement broker license fee
- iii. A licensee licensed to act as a viatical settlement broker or provider as of December 31, 2009 is considered to have met the requirements for licensure as a life settlement broker or provider
- iv. A life settlement broker license is not required for a licensed attorney, certified public accountant, or accredited financial planner who represents the policy owner and whose compensation is not paid directly or indirectly by the life settlement provider. (CIC 10113.29(b)(1)(B))

9. Be able to identify the Code provisions regarding a life-only agent acting as an agent for an insurer for which the agent is not specifically appointed (CIC 1704.5).
10. Be able to recognize:
  - a. the differences between the authority of an agent and a solicitor;
  - b. ~~that there is no such license as "life solicitor."~~ (CIC 1704(d))
  - b. that an insurance solicitor is a natural person employed to aid an insurance agent or insurance broker in transacting insurance other than life (CIC 1624).
11. For Insurance Agent's Errors & Omissions insurance, be able to identify:
  - a. the types of coverages available;
  - b. the types of losses commonly covered and not covered;
  - c. the need for the coverage.
12. Be able to identify acts prohibited (unless a surplus lines broker) with regard to

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nonadmitted insurers (CIC 703).

13. Be able to identify the prohibitions of free insurance (CIC 777.1).
14. Be able to identify the Code requirements for the following:
  - a. an agency name, use of name (CIC 1724.5, 1729.5);
  - b. change of address (CIC 1729);
  - c. records (CIC 10508);
  - d. filing license renewal application (CIC 1720);
  - e. printing license number on documents (CIC 1725.5);
15. Be able to identify the records a life agent must maintain CIC 10508-10508.5).
16. Be able to identify the requirements applicable to an agent for life insurance policy illustrations (CIC 10509.950-10509.965).
17. Be able to identify the Code specifications regarding producer application investigation, denial of applications, and suspension or revocation of license (CIC 1666, 1668-1669, 1738).
18. Be able to identify the importance and the scope of the California Insurance Code regarding:
  - a. the filing of a notice of appointment to transact Life insurance (CIC 1704,1705);
  - b. the filing of a notice of appointment to transact Disability insurance (CIC 1673, 1704-1705);
  - c. an inactive license (CIC 1704a).
  - d. cancellation of a license by the licensee in the licensee's possession or in the employer's possession (CIC 1708).
19. Be able to identify the scope and effect of the Code regarding termination of a (producer's) license, including when producers dissolve a partnership (CIC 1708-1712.5).
20. Be able to identify and apply:
  - a. the definition of the term "fiduciary;"
  - b. producer fiduciary duties described in the Code (CIC 1733 -1735).
21. Be able to identify the continuing education (CE) requirements for:
  - a. a life-only agent (CIC 1749.3);
  - b. an agent writing Long Term-Care Insurance (CIC 10234.93);

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- c. agents writing California Partnership coverage must meet California long-term care requirements and training requirements on the California Partnership for Long-Term Care.
    - i. The total hours of CE required are not increased by b. or c.
  - d. life-only agents or accident and health agents also licensed as a fire and casualty broker-agent must complete 25 hours of training in the first four 12-month periods for either license.
  - e. a life-only agent who sells annuity products to individuals consumers must complete:
    - i. eight (8) hours of initial training prior to soliciting for sales;
    - ii. four (4) hours of subsequent training every two years prior to license renewal. (CIC 1749.8)
22. Be able to identify the definition of an administrator (CIC 1759).
23. Concerning a Life and Disability Insurance Analyst license, be able to identify:
- a. the licensing requirements (CIC 1836);
  - b. requirements and prohibitions for charging fees (CIC 1848).
24. Know that the interpretation of policy provisions is not a primary objective of insurance regulation.

The following Educational Objective is derived from the codes of ethics and California Insurance Code of major industry organizations and is the basis for life-only examination questions.

25. Be able to identify and apply the meaning of the following:
- a. place the customer's interest first;
  - b. know your job - and continue to increase your level of competence;
  - c. identify the customer's needs and recommend products and services that meet those needs;
  - d. accurately and truthfully represent products and services;
  - e. use simple language; talk the layman's language when possible;
  - f. stay in touch with customers and conduct periodic coverage reviews;
  - g. protect your confidential relationship with your client;
  - h. keep informed of and obey all insurance laws and regulations;
  - i. provide exemplary service to your clients;
  - j. avoid unfair or inaccurate remarks about the competition.
26. Be able to identify that the California Insurance Code (CIC) and the California Code of Regulations (CCR) identify many unethical and/or illegal practices, but

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they are NOT a complete guide to ethical behavior.

27. Be able to identify special ethical concerns that may occur when dealing with Senior Citizens regarding pretext interviews (CIC 791.03).

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

##### **I. C3. Insurers**

1. Be able to differentiate between:
  - a. admitted and nonadmitted insurers (CIC 24-25);
  - b. domestic, foreign and alien insurers (CIC 26-27, 1580).
2. Be able to identify the functions of the following major operating divisions of insurers: Marketing or Sales, Underwriting, Claims, and Actuarial.
3. Be able to identify that a primary insurer is the insurance company who transfers its loss exposure to another insurer in a reinsurance transaction.
4. Be able to differentiate between regulation of an admitted insurer and non-admitted insurer, and the potential consequences for consumers (CIC 24, 25, 1760 through 1780);
5. Be able to identify the penalty for unlawfully acting as an insurer without a certificate of authority (CIC 703)
6. Be able to identify who may be an insurer (CIC 150).
  - a. person, association, organization, partnership, business trust, limited liability company or corporation (CIC 19).
7. Be able to differentiate between Mutual, Stock and Fraternal insurers.
  - a. know that de-mutualization is a process whereby a mutual insurer becomes a stock company (CIC 11535).
8. Be able to identify the meaning of post-claims underwriting and what Code restrictions apply (CIC 10384).

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

##### **I. C4. Market Regulation – General**

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1. Be able to identify:
  - a. the California Insurance Code (CIC) and how it may be changed (Code);
  - b. the California Code of Regulations (CCR Title 10, Chapter 5) and how it may be changed (Code);
  - c. how the insurance commissioner is selected and the responsibilities of the position (CIC 12900, 12921).
2. Be able to identify the correct application of the Unfair Practices article, including its prohibitions and penalties (CIC 790-790.10).
3. Be able to identify the privacy protection provisions of:
  - a. the Gramm-Leach-Bliley Act
    - i. Be able to explain the rules regarding the collection and disclosure of customers' personal financial information by financial institutions;
    - ii. Be able to identify the requirements for all financial institutions to design, implement and maintain safeguards to protect customer information.
  - b. The California Financial Information Privacy Act (SB 1)
  - c. Insurance information and Privacy Protection Act regarding practices, prohibitions and penalties (CIC 791-791.26);
  - d. Cal-GLBA/"California Financial Information Privacy Act" Section 4050 CA Financial Code.
  - e. **For life settlement transactions insured's identity and personal financial and medical information may not be disclosed unless it is:**
    - i. **necessary to effect a life settlement contract and the owner and insured have provided prior written consent;**
    - ii. **necessary to effectuate the sale of life settlement contracts as investments, provided the applicable securities laws are followed and the owner and insured have provided prior written consent;**
    - iii. **provided in response to an investigation/examination by the Commissioner;**
    - iv. **a condition to the transfer of a settled life insurance policy by one provider to another provider, and the receiving provider agrees to comply with the Insurance Code's confidentiality provisions;**
    - v. **necessary to allow the provider, life settlement broker, or their authorized representative to make contact for purposes of determining health status of the insured.**
4. Be able to identify the scope and correct application of the conservation

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proceedings described in the Code (CIC 1011, 1013, 1016).

5. Be able to define an insolvent insurer (CIC 985).
  - a. Know the definition of Paid-in Capital (CIC 36 & 985);
  - b. Know that it is a misdemeanor to refuse to deliver any books, records, or assets to the Commissioner once a seizure order has been executed in an insolvency proceeding (CIC 1013).
6. Be able to identify the purpose and scope of the Code concerning the California Life and Health Insurance Guarantee Association (CLHIGA) (CIC 1067.02(a)[1], 1067.02(b)[1]).
7. Be able to identify the basic coverages and exclusions of CLHIGA (CIC 1067 through CIC 1067.18).
8. Be able to identify:
  - a. common circumstances that would suggest the possibility of fraud;
  - b. efforts to combat fraud (CIC 1872, 1874.6, 1875.8, 1875.14, 1875.20, 1877.3(b)(1));
  - c. that if an insured signs a fraudulent claim form, the insured may be guilty of perjury.
9. Be able to identify the scope and correct application of the False and Fraudulent Claims article of the Code (CIC 1871, 1871.4).
10. Be able to identify the requirements for:
  - a. discontinuance of Group Life Insurance (CIC 10128.1-10128.4).
11. Be able to identify discriminatory practices prohibited by the California Insurance Code (CIC 10140-10145).
12. Be able to identify the meaning of (as used in the CIC):
  - a. shall and may (CIC 16);
  - b. person (CIC 19).
13. Be able to identify the requirements for notice by mail (CIC 38).

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

##### **I. C5. Fair Claims Settlement Practices Regulations**

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1. Be able to identify a definition of the following:
  - a. Claimant, CCR Title 10, 2695.2(c);
  - b. Notice of Legal Action, CCR Title 10, 2695.2(o);
  - c. Proof of Claims, CCR Title 10, 2695 2(s);
2. Be able to identify File and Record Documentation, CCR Title 10, 2695.3;
3. Be able to identify Duties Upon Receipt of Communications, CCR Title 10 2695.5;
4. Be able to identify Standards for Prompt, Fair and Equitable Settlements, CCR Title 10, 2695.7(a), (b), (c), (g), and (h).

## **II. LIFE INSURANCE** (65 percent of exam questions)

### **II. A. Life Insurance - Basics**

1. Be able to identify examples or definitions of:
  - a. life-only insurance;
  - b. applicant, policy owner, insured, beneficiary.
2. Be able to identify the elements of the personal financial planning process:
  - a. identify overall financial objectives;
  - b. develop and implement (including use of risk management techniques) a plan to accomplish the objectives.
3. Be able to identify the major components of the personal (non-property/liability) risk management process identifying, quantifying, and treating loss exposures
  - a. identified and quantified by:
    - i. human life value approach or
    - ii. needs approach.
  - b. treated by:
    - i. avoidance;
    - ii. retention;
    - iii. sharing;
    - iv. reduction;
    - v. transferring.
4. Be able to identify the following business uses of life-only insurance:
  - a. key person insurance;
  - b. buy-sell insurance;
  - c. split dollar.



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5. Be able to identify what is meant by the term limit of liability in a life-only policy.
6. Be able to identify when insurable interest is required to exist under life insurance policies (CIC 10110).
7. Be able to identify:
  - a. the term mortality;
  - b. the term mortality table including how it is developed.
8. Be able to identify the meaning of the statement "Life insurance creates an immediate estate."

## **II. LIFE INSURANCE**

### **II. B. Types of Life Policies**

1. Be able to differentiate between the following types of life insurance policies:
  - a. par and non-par;
  - b. ordinary, industrial (home service), group.
2. Be able to identify which of an applicant's needs each of the following general classes of policies might best fulfill:
  - a. term;
  - b. endowment;
  - c. whole life;
  - d. universal life;
  - e. variable life.
3. Be able to differentiate between common modes of premium payment.
  - a. single premium;
  - b. limited pay;
  - c. modified pay;
  - d. level;
  - e. fixed vs. flexible;
  - f. guaranteed at initial level vs. initial and maximum premium tables.
4. Be able to identify each of the following special policies or riders and why needed:
  - a. mortgage redemption;
  - b. family protection, family policy, family rider;
  - c. policies linked to indexes;
  - d. juvenile policies (including Jumping Juvenile, Payor Rider).

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- e. return of premium policies
5. Be able to identify the following types of term products:
- a. level term;
  - b. renewable term;
  - c. convertible term;
  - d. decreasing term;

## **II. LIFE INSURANCE**

### **II. C. Annuities**

1. Be able to identify a definition of an:
- a. annuity;
  - b. annuitant;
  - c. owner;
  - d. beneficiary.
2. Be able to identify the business and personal uses for annuity products.
3. Be able to identify and differentiate between:
- a. immediate and deferred annuities, including single-premium-deferred and flexible premium-deferred;
  - b. fixed and variable annuities;
  - c. accumulation period and annuity period;
  - d. general account vs. separate account;
  - e. qualified vs. nonqualified annuities;
  - f. group vs. individual annuities;
  - g. equity index annuities;
  - h. market value adjusted annuities;
  - i. tax sheltered annuities (403b);
  - j. individual retirement annuities (IRAs);
  - k. Roth IRAs.
4. Be able to identify and differentiate between benefit payment options:
- a. pure and straight life, refund life, installments certain;
  - b. joint-life and joint-and-survivor annuities.
5. Be able to identify the following:
- a. the relevant information to be obtained in making recommendations to a senior consumer;
    - i. occupation and occupational status;

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- ii. marital status;
  - iii. age;
  - iv. number and type of dependents;
  - v. sources of income;
  - vi. yearly income;
  - vii. the consumer's existing insurance;
  - viii. the consumer's insurance needs and objectives;
  - ix. the cost to the consumer and the consumer's ability to pay for the proposed transaction or transactions;
  - x. source of funds to pay premiums;
  - xi. investment savings;
  - xii. liquid net worth;
  - xiii. tax status;
  - xiv. need for tax advantages;
  - xv. investment experience of the consumer;
  - xvi. consumer concern for preservation of principle;
  - xvii. product time horizon; and
  - xviii. the consumer's awareness of liquidity limitations or surrender charges.
- b. the standards for determining whether agent's recommended transactions meet senior consumer's insurance needs and financial objectives.
6. Be able to identify the rules regarding the sale to seniors of the types of insurance (CIC 785-789.10).

## **II. LIFE INSURANCE**

### **II. D. Life Insurance and Annuities - Policy Replacement and Cancellation**

- 1. Be able to identify the insured's rights to cancel a recently purchased life policy, when insured is:
  - a. age 60 or over;
  - b. less than 60 years of age (CIC 10127.9-10127.10).
  - c. during the free-look period, know what the investment requirements are (CIC 10127.10)
- 2. Be able to identify the requirements and penalties of the "Replacement of Life Insurance and Annuity Policies" article (CIC 10509 -10509.09).
- 3. Know what types of disclosures are required if the applicant requests an immediate investment of funds (CIC 10127.10).

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## **II. LIFE INSURANCE**

### **II. E. The Individual Life Insurance Contract**

1. Regarding life insurance applications, be able to identify:
  - a. the types of information required on the application
  - b. a "non-medical application" and why a medical examination may be required
  - c. required signatures
  - d. changes to the application
  - e. why insurers attach the application to a life policy and why it becomes part of a life policy.
2. Be able to identify the life insurance policy disclosures:
  - a. requirements for using supplemental illustrations
  - b. buyers guide
  - c. cost indexes

### **3.d. Be able to identify life settlement required disclosures as follows:**

- a. At the time of application
  - i. possible alternatives (i.e. accelerated benefits)
  - ii. transaction may have tax implications and advice should be sought from a qualified tax advisor
  - iii. may affect creditors rights
  - iv. possible effect on conversion rights, waiver of premium benefits
  - v. may limit ability to purchase future life insurance
  - vi. rescission rights
  - vii. date by which funds will be available
  - viii. owner will be required to disclose medical, financial and personal information
  - ix. insured will be contacted periodically to determine health status
- b. At the time of the offer
  - i. affiliations between broker and provider; and affiliations between provider and issuer
  - ii. provider disclosures
    - (1) gross purchase price paid for policy
    - (2) amount to be paid to policyowner
    - (3) full disclosure of compensation to broker or any party involved in the life settlement transaction
    - (4) contact information for broker

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**iii. broker disclosures**

- (1) complete description of all offers, counteroffers, acceptances and rejections**
- (2) affiliation between broker and person making an offer on a proposed life settlement contract**
- (3) all estimates of life expectancy of the insured**

**4.3.** Regarding insurable interest, be able to identify the requirements for the:

- a. policyowner;
- b. beneficiary;
- c. facility of payment provision

**5.4.** Regarding the life insurance policy, be able to identify:

- a. the types of information recorded on the policy title page
- b. that there are no “standard” life policies (unlike fire and casualty insurance)
- c. premium payment mode (annual, semiannual, monthly, etc.)

**6.5.** Regarding policy delivery, be able to identify:

- a. conditional receipt vs. binding receipt
- b. temporary insurance agreement
- c. temporary term
- d. be able to identify the acceptable methods for delivery of a life policy to the owner of the policy (CIC 10113.6).
- e. delivery receipt

**7.6.** Be able to identify the following “common provisions” of life policies:

- a. entire contract
- b. insuring clause
- c. free look
- d. consideration clause
- e. owners rights, including:
  - i. assignment or transfer of policy;
    - (1) know how **viatical life** settlements are effected through the use of absolute assignment
    - (2) stranger-originated life insurance (STOLI) arrangements
  - ii. selecting or changing payment mode;
  - iii. selecting or changing beneficiaries;
  - iv. conversion privilege;
  - v. cash values;
  - vi. dividends or excess interest credits;

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- vii. surrender charges
  - viii. self funding
- f. beneficiary designations, including:
  - i. eligible beneficiaries
  - ii. primary and secondary (contingent)
  - iii. common disaster clause (Uniform Simultaneous Death Act)
  - iv. spendthrift clause
  - v. revocable vs. irrevocable
  - vi. be able to identify which method used to designate beneficiaries (spouse, children) best serves the needs of a policyowner in common situations
  - vii. be able to identify the rights of the following, after the insured's death: beneficiaries and creditors
- g. grace period
- h. automatic premium loan
- i. reinstatement (including why reinstating a lapsed policy might be wiser for a policyowner than purchasing a new policy)
- j. policy loan
- k. incontestability
- l. suicide
- m. misstatement of age or sex

**8.7.** Be able to list and explain the three Nonforfeiture Options:

- a. cash surrender
- b. reduced paid up
- c. extended term

**9.8.** Be able to identify the various Settlement Options and why each might be selected

- a. lump sum
- b. fixed amount
- c. fixed period
- d. life income
- e. interest only

**10.9.** Be able to describe the types of Dividend Options available to insureds, including:

- a. cash payments
- b. accumulation at interest
- c. paid-up additions
- d. reduced premium payment

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- e. one-year term

#### **11.10. Common Policy Exclusions**

- a. war
- b. aviation

## **II. LIFE INSURANCE**

### **II. F. Taxation of Life Insurance and Annuity - Premium and Proceeds**

1. Be able to identify how life and annuity policies receive favorable tax treatment regarding:
  - a. premium payments;
  - b. cash value accumulation or dividends;
  - c. death benefit proceeds;
  - d. surrender and mature policy values;
  - e. annuity payments to the beneficiary.
  - f. group life insurance
  - g. 1035 exchanges
2. Be able to identify the (Internal Revenue Service) definition of Modified Endowment Contract, including what effect this might have on a policyholder.

## **II. LIFE INSURANCE**

### **II. G. Employee Benefit Plans**

1. Be able to differentiate between the basic characteristics of group and individual policies concerning:
  - a. requirements for medical examinations and eligibility;
  - b. an insurance policy vs. master contract vs. certificate of insurance;
  - c. employer as beneficiary;
  - d. insureds premium:
    - i. basis;
    - ii. relative cost;
    - iii. payment (contributory and noncontributory)
  - e. classifications of insureds;
  - f. allowable benefits levels;
  - g. selection of coverage;
2. Be able to identify the regulatory requirements for group insurance:
  - a. eligible groups and insureds (CIC 10202);
  - b. dependents of insured employees (CIC 10203.4);

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- c. types of life policies and premiums (CIC 10200);
  - d. incontestability (CIC 10206);
  - e. exclusions for war, military , and aviation risk (CIC 10206.5);
  - f. misstatement of age (CIC 10208);
  - g. certificate of insurance (CIC 10209);
  - h. conversion privilege (CIC 10209);
  - i. conversion period coverage (CIC 10209);
  - j. blanket life insurance (CIC 10220, 10222);
  - k. domestic partnership (CIC 10121.7)
3. Concerning retirement plans, be able to identify the key points regarding:
- a. qualified plans (e.g. Keogh, IRA, TSA, SEP, 401K, Roth IRA, education IRA) and nonqualified plans;
  - b. thrift funds and thrift accounts
  - c. defined benefit plans and defined contribution plans;
  - d. profit sharing plans;
  - e. government regulation regarding
    - i. nondiscrimination;
    - ii. vesting;
    - iii. fully funded.
  - f. tax aspects - contributions vs. benefits;
  - g. Employee Stock Ownership Plan (ESOP).

## **II. LIFE INSURANCE**

### **II. H. Social Insurance System**

- 1. Be able to differentiate between the characteristics of social and private insurance.
- 2. Be able to identify the social security system's requirements to be currently insured vs. fully insured.
- 3. Be able to identify the kinds of benefit payments paid and the insured status required for the following types of benefits:
  - a. survivor(s);
    - i. income
    - ii. death benefits
  - b. disability;
  - c. retirement;
  - d. Medicare.



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## **II. LIFE INSURANCE**

### **II. I. Underwriting, Pricing, and Claims**

1. Underwriting
  - a. Be able to identify the following and their role in the underwriting process:
    - i. Medical Information Bureau;
    - ii. attending physician's statement.
    - iii. know what is required when an applicant reveals conditions that require more information.
    - iv. standard, substandard, preferred risks.
    - v. group vs. individual
  - b. Be able to identify that there are standards established for insurers requiring them to avoid unfair underwriting for the risk of HIV and AIDS in California (CIC 799).
  - c. Be able to identify underwriting on the basis of genetic testing (CIC 10146-10149.1)
2. Pricing
  - a. Be able to identify the following components of an insurer's policy premium:
    - i. mortality cost;
    - ii. insurer expenses;
    - iii. investment return.
    - iv. reinsurance
  - b. Be able to identify the significance, to an insurer, of accurate mortality predictions.
  - c. Be able to identify the advantages and disadvantages of the methods used to compare the cost of life insurance policies.
  - d. Be able to identify the advantages of high retention rates for:
    - i. agents;
    - ii. policyholders;
    - iii. insurers.
  - e. Be able to identify the following regarding the Health Insurance Portability and Accountability Act (HIPAA):
    - i. what the law provides;
    - ii. who is eligible
3. Be able to identify the duties of each concerning payment of claims in the event of loss:
  - a. insurer
  - b. insured

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- c. agent

## **II. LIFE INSURANCE**

### **II. J. Financial Structure of Insurers**

1. Be able to identify:
  - a. earned surplus;
  - b. policy dividends.
2. Be able to identify the major financial reports insurers are required to make.

## **III. LIFE POLICY RIDERS** (5 percent of exam questions)

1. Be able to identify which of an applicant's needs might be fulfilled by each of the following riders or clauses:
  - a. disability income;
  - b. waiver of premium or waiver of monthly deduction;
  - c. accidental death;
  - d. cost of living;
  - e. living need;
  - f. option to purchase other insurance ( guaranteed insurability);
  - g. long-term care; and
  - h. annuity riders.

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## **APPENDIX A**

### **Ethics and California Insurance Code (12 hour) Educational Objectives**

The “General” Ethics and California Insurance Code educational objectives that apply to all lines of authority appear below. The 12 hours of required Ethics and California Insurance Code education must at a minimum include the material in Appendix A.

#### **I. GENERAL INSURANCE**

##### **I. A. Basic Insurance Concepts and Principles**

1. Be able to identify examples of insurance (Section 22 of the CIC).
2. Be able to identify the definition of insurable events (Section 250 of the CIC).

#### **I. GENERAL INSURANCE**

##### **I. B. Contract Law**

1. Be able to identify the term “insurance policy” (Section 380 of the CIC).
2. Be able to identify the meaning and effect of each of the following on a contract:
  - a. fraud (Section 338, 1871.1-1871.4 of the CIC);
  - b. concealment (Section 330-339 of the CIC);
    - i. Be able to identify information that does not need to be communicated in a contract: (Section 333 of the CIC)
      - (1) known information
      - (2) information that should be known
      - (3) information which the other party waives
      - (4) information that is not material to the risk
  - c. warranty (Section 440-445, 447 of the CIC);
    - i. know that a representation in an insurance contract qualifies as an implied warranty.
  - d. materiality (Section 334 of the CIC);
    - i. know that the materiality of concealment is the rule used to determine the importance of a misrepresentation.
  - e. representations (Section 350-361 of the CIC);
    - i. know when a representation can be altered or withdrawn (Section

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- 355 of the CIC)
    - ii. know that a representation is false when the facts fail to correspond with its assertions or stipulations (Section 358 of the CIC).
  - f. misrepresentation (Section 780 -784 of the CIC).
3. Be able to identify six required specifications for all insurance policies (Section 381 of the CIC)
- a. know that the financial rating of the insurer is not required to be specified in the insurance policy (Section 381 of the CIC).
4. Be able to identify:
- a. the meaning of the term rescission;
  - b. when an insurer has the right of rescission (Section 331, 338, 359, 447 of the CIC).
    - i. know that either intentional or unintentional concealment entitles an injured party to rescission of a contract (Section 331 of the CIC).

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

###### **I. C1. Distribution Systems**

1. Be able to identify a definition of the following marketing systems:
- a. agency;
  - b. direct response;
  - c. home service.

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

###### **I. C2. Producers**

1. Be able to identify the Code definition of transact and why the definition is important (Section 35, 1621-1624, 1631, 1633 of the CIC).
2. Be able to identify what constitutes transaction of insurance (Section 35 of the CIC):
- a. solicitation, (Section 35(a) of the CIC);
  - b. negotiation, (Section 35(b) of the CIC);
  - c. execution of a contract of insurance (Section 35(c) of the CIC);
  - d. Transaction of matters subsequent to and arising out of a contract of insurance (Section 35(d) of the CIC).

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3. Be able to identify:
  - a. that the Code prohibits certain actions by unlicensed persons (Section 1631 of the CIC);
  - b. the penalty for such ["(a)" above] prohibited actions (Section 1633 of the CIC).
4. Written Consent in Regards to Interstate Commerce (Prohibited Persons in Insurance):
  - a. Be able to identify what conduct is prohibited by Title 18 United States Code Section 1033.
  - b. Be able to identify what civil and criminal penalties apply, Title 18 United States Code Sections 1033 and 1034.
5. Be able to identify the differences between the terms agent and broker with respect to their relationship with insurers and with their insureds.
  - a. insurance agent means a person authorized, by and on behalf of an insurer, to transact all classes of insurance other than life insurance (Section 31 of the CIC).
  - b. insurance broker means a person who, for compensation and on behalf of another person, transacts insurance other than life with, but not on behalf of, an insurer (Section 33 of the CIC).
  - c. **know that there is no life broker or health broker**
6. Be able to identify the Code provisions regarding a life-only agent acting as an agent for an insurer for which the agent is not specifically appointed (Section 1704.5 of the CIC).
7. Be able to differentiate between an insurance agent, an insurance broker and an insurance solicitor (Section 31, 1621, 33, 1623, 34, and 1624 of the CIC sections).
8. For Insurance Agent's Errors & Omissions insurance, be able to identify:
  - a. the types of coverages available;
  - b. the types of losses commonly covered and not covered;
  - c. the need for the coverage.
9. Be able to identify acts prohibited (unless a surplus lines broker) with regard to nonadmitted insurers (Section 703 of the CIC).
10. Be able to identify the prohibitions of free insurance (Section 777.1 of the CIC).

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11. Be able to identify the Code requirements for the following:
  - a. an agency name, use of name (Section 1724.5, 1729.5 of the CIC);
  - b. change of address (Section 1729 of the CIC);
12. Be able to identify the rules regarding fictitious names (Section 1724.5 of the CIC).
13. Be able to identify the rules regarding Internet advertisements (Section 1726(a) of the CIC).
14. Be able to identify the licensee's duty for disclosure of the effective date of coverage (Section 1730.5 of the CIC).
15. Be able to identify the Code specifications regarding producer application investigation, denial of applications, and suspension or revocation of license (Section 1666, 1668-1669, 1738 of the CIC).
16. Be able to identify the importance and the scope of the California Insurance Code regarding:
  - a. the filing of a notice of appointment (Section 1673, 1704-705 of the CIC);
  - b. an inactive license (Section 1704(a) of the CIC).
  - c. cancellation of a license by the licensee in the licensee's possession or in the employer's possession (Section 1708 of the CIC).
17. Be able to identify the scope and effect of the Code regarding termination of a (producer's) license, including when producers dissolve a partnership (Section 1708-1712.5 of the CIC).
18. Be able to identify and apply:
  - a. the definition of the term "fiduciary;"
  - b. producer fiduciary duties described in the Code (Section 1733 -1735 of the CIC).
19. Be able to identify the continuing education (CE) requirements for:
  - a. agents (Section 1749.3 of the CIC);
  - b. an agent writing Long Term Care Insurance (Section 10234.93 of the CIC);
  - c. agents writing California Partnership coverage must meet California long-term care requirements and training requirements on the California Partnership for Long-Term Care.
    - i. The total hours of CE required are not increased by b. or c.
  - d. life-only agents or accident and health agents also licensed as a fire and casualty broker-agent must complete 25 hours of training in the first four

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12-month periods for either license.

The following Educational Objective is derived from the codes of ethics of major industry organizations and is the basis for licensing examination questions.

1. Be able to identify and apply the meaning of the following:
  - a. place the customer's interest first;
  - b. know your job - and continue to increase your level of competence;
  - c. identify the customer's needs and recommend products and services that meet those needs;
  - d. accurately and truthfully represent products and services;
  - e. use simple language; talk the layman's language when possible;
  - f. stay in touch with customers and conduct periodic coverage reviews;
  - g. protect your confidential relationship with your client;
  - h. keep informed of and obey all insurance laws and regulations;
  - i. provide exemplary service to your clients;
  - j. avoid unfair or inaccurate remarks about the competition.
2. Be able to identify that the California Insurance Code (CIC) and the California Code of Regulations (CCR) identify many unethical and/or illegal practices, but they are NOT a complete guide to ethical behavior (CIC, CCR).
3. Be able to identify special ethical concerns that may occur when dealing with Senior Citizens regarding pretext interviews (Section 791.03 of the CIC).

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

##### **I. C3. Insurers**

1. Be able to differentiate between:
  - a. admitted and nonadmitted insurers (Section 24-25 of the CIC);
  - b. domestic, foreign, and alien insurers (Section 26-27 of the CIC);
2. Be able to differentiate between regulation of an admitted insurer and non-admitted insurer, and the potential consequences for consumers (Section 24, 25, 1760 through 1780 of the CIC);
3. Be able to identify the penalty for unlawfully acting as an insurer without a certificate of authority, (Section 70(b) of the CIC).

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4. Be able to identify who may be an insurer (Section 150 of the CIC).
  - a. person, association, organization, partnership, business trust, limited liability company or corporation (Section 19 of the CIC).
5. Be able to differentiate between Mutual, Stock and Fraternal insurers.
  - a. know that de-mutualization is a process whereby a mutual insurer becomes a stock company (Section 11535 of the CIC).

#### **I. GENERAL INSURANCE**

##### **I. C. The Insurance Marketplace**

##### **I. C4. Market Regulation – General**

1. Be able to identify:
  - a. the California Insurance Code and how it may be changed (Code);
  - b. the California Code of Regulations (CCR Title 10, Chapter 5) and how it may be changed (Code);
  - c. how the insurance commissioner is selected and the responsibilities of the position (Section 12900, 12921 of the CIC).
2. Be able to identify the correct application of the Unfair Practices article, including its prohibitions and penalties (Section 790-790.10 of the CIC).
3. Be able to identify the privacy protection provisions of:
  - a. the Gramm-Leach-Bliley Act
    - i. Be able to explain the rules regarding the collection and disclosure of customers' personal financial information by financial institutions;
    - ii. Be able to identify the requirements for all financial institutions to design, implement and maintain safeguards to protect customer information.
  - b. The California Financial Information Privacy Act (SB 1)
  - c. Insurance information and Privacy Protection Act regarding practices, prohibitions and penalties (Section 791-791.26 of the CIC);
  - d. Cal-GLBA/"California Financial Information Privacy Act" Section 4050 CA Financial Code.
4. Be able to identify the scope and correct application of the conservation proceedings described in the Code (Section 1011, 1013, and 1016 of the CIC).
5. Be able to define an insolvent insurer (Section 985 of the CIC):
  - a. the definition of an insolvent insurer includes either:



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- i. Any impairment of minimum "paid-in capital" or "capital paid in," as defined in Section 36, required in the aggregate of an insurer by the provisions of this code for the class, or classes, of insurance that it transacts anywhere;
    - ii. An inability of the insurer to meet its financial obligations when they are due;
  - b. know that an insurer cannot escape the condition of insolvency by being able to provide for all its liabilities and for reinsurance of all outstanding risks. An insurer must also be possessed of additional assets equivalent to such aggregate "paid-in capital" or "capital paid in" required by this code after making provision for all such liabilities and for such reinsurance (Section 985.(a) (1 and 2) of the CIC);
  - c. know the definition of Paid-in Capital (Section 36 and 985 of the CIC);
  - d. know that it is a misdemeanor to refuse to deliver any books, records, or assets to the Commissioner once a seizure order has been executed in an insolvency proceeding (Section 1013 of the CIC).
6. Be able to identify:
- a. common circumstances that would suggest the possibility of fraud;
  - b. efforts to combat fraud (Section 1872, 1874.6, 1875.8, 1875.14, 1875.20, 1877.3(b)[1] of the CIC);
  - c. that if an insured signs a fraudulent claim form, the insured may be guilty of perjury.
7. Be able to identify the scope and correct application of the False and Fraudulent Claims article of the Code (Section 1871, 1871.4 of the CIC).
8. Be able to identify the meaning of (as used in the CIC):
- a. shall and may (Section 16 of the CIC);
  - b. person (Section 19 of the CIC).
9. Be able to identify the requirements for notice by mail (Section 38 of the CIC).

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#### **I. GENERAL INSURANCE**

#### **I. C. The Insurance Marketplace**

#### **I. C5. Fair Claims Settlement Practices Regulations**

1. Be able to identify a definition of the following:
  - a. Claimant (Section 2695.2(c), Title 10 of the CCR);
  - b. Notice of Legal Action (Section 2695.2[o], Title 10 of the CCR);
  - c. Proof of Claims (Section 2695.2[s], Title 10 of the CCR);
2. Be able to identify File and Record Documentation (Section 2695.3, Title 10 of the CCR);
3. Be able to identify Duties Upon Receipt of Communications (Section 2695.5, Title 10 of the CCR);
4. Be able to identify Standards for Prompt, Fair and Equitable Settlements (Section 2695.7(a), (b), (c), (g), and (h), Title 10 of the CCR)